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FISCAL IMPACT STATEMENT

LS 6661
BILL NUMBER: HB 1116

NOTE PREPARED: May 2, 2013
BILL AMENDED: Apr 25, 2013

SUBJECT: Property taxes.

FIRST AUTHOR: Rep. Leonard
FIRST SPONSOR: Sen. Head

BILL STATUS: Enrolled

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Reassessment Levy*: This bill eliminates Department of Local Government Finance (DLGF) control of a county's reassessment fund.

Local Budget Hearings: The bill provides that the DLGF is required to conduct a public hearing on a political subdivision's budget, tax rate, and tax levy if requested in writing by a taxpayer. It allows the DLGF to consider budgets, tax rates, and tax levies of multiple political subdivisions at the same hearing.

Cumulative Funds: This bill reconciles past legislation amending the statute for calculating tax rates for rate controlled funds.

Township Fire: The bill authorizes townships to petition the DLGF for permission to increase the township levy by the amount borrowed in 2012 or 2013, but not both. It requires the DLGF to grant permission for the levy increase. The bill allows the loan subject to the levy increase to be repaid from additional borrowing over three years. It provides that if a township receives such a maximum levy increase in 2014 based on a fire emergency loan, the levy limits imposed on the township may be exceeded in calendar years 2014, 2015, and 2016 by the amount of ad valorem property taxes imposed by the township to repay the money borrowed for the three year repayment schedule. The bill provides that the taxes imposed in excess of the levy limits are not included in the township's levy for purposes of determining its maximum levy. It also removes an obsolete provision under which the DLGF had discretion to approve similar levy increases.

Controlled Projects: This bill specifies that any school building for academic instruction is: (1) subject to the petition and remonstrance process if the cost of the project is less than or equal to $10 M; or (2) subject to the referendum process if the cost of the project is more than $10 M. (Under current law the threshold is $10 M for elementary and middle school buildings and $20 M for high school buildings.) The bill provides that in determining whether a local government capital project is a controlled project and whether the petition and remonstrance process or the referendum process apply to the capital project, the cost of the capital project does not include expenditures for the capital project that will be paid from donations or other gifts.

Circuit Breaker Reports: This bill eliminates a requirement that a county auditor notify each political subdivision of the property tax reductions resulting from the circuit breaker credit.

Assessor Omissions: The bill permits an owner to pay property taxes attributable to changes in assessment of the owner's property over the same number of years that corresponds to any delay in assessment of the owner's property if the owner complied with the applicable statutes concerning filing an assessment registration notice or obtaining permits for the changes to the real property.

Redevelopment Commission Reporting: This bill requires redevelopment commissions to submit reports to the appropriate fiscal body regarding tax increment financing areas. It requires the fiscal body to provide the same information to the DLGF.

TIF Neutralization: The bill specifies that an adjustment to the base assessed value of an allocation area: (1) may not include the effect of the phase in of assessed value due to property tax abatements; and (2) may decrease base assessed value only to the extent that assessed values in the allocation area have been decreased due to annual adjustments or the reassessment under a reassessment plan. It also specifies that assessed value increases attributable to the application of an abatement schedule may not be included in the base assessed value of an allocation area.

Library Study: This bill requires the Commission on State Tax and Financing Policy to study the circumstances in which an elected fiscal body should review the budget and property tax levy of an appointed public library board and library district border changes.

TIF Study: The bill urges the Legislative Council to create a study committee to study tax increment financing (TIF).

Effective Date: Upon Passage; July 1, 2013.

Explanation of State Expenditures: *Reassessment Levy*: Under current law, counties must impose a property tax levy to fund the real property reassessment process. The DLGF must give notice to each county regarding the required levy for the reassessment fund each year. The DLGF may currently raise or lower the levy amount as the Department deems appropriate. Under this provision, the determination of the reassessment fund levy would be left to the county. The DLGF would have reduced administrative duties under this provision.

Local Budget Hearings: Under current law, the DLGF must hold a public hearing on each taxing unit's budget, levy, and tax rate. The hearings are held in the county in which the taxing unit is located. Under this provision, the DLGF would not be required to hold a budget hearing for a taxing unit unless at least one taxpayer requests that the hearing be held. Taxpayers may make their request on paper or electronically, and may send it through the county auditor or directly to the DLGF.

There are currently around 2,600 taxing units in the state. The DLGF would realize a savings of travel and publication expenses. There would also be a savings of employee hours that are currently devoted to hearings with no attendees. Actual savings would depend on the number of taxing units for which a hearing is not requested.

Library Study: If the Commission on State Tax and Financing Policy were to hold additional meetings to address this topic, there would be additional expenditures for legislator per diem and travel reimbursement for the Commission members. Any additional expenditures must be within the Commission's budget, which is established by the Legislative Council.

TIF Study: This bill urges the Legislative Council to establish a study committee on TIFs. Legislative Council resolutions in the past have established budgets for interim study committees in the amount of $9,500 per interim for committees with fewer than 16 members and $16,500 per interim for committees with 16 members or more. Any fiscal impact would depend on the actions of the Legislative Council.

Explanation of State Revenues:

Explanation of Local Expenditures: *Circuit Breaker Reports*: This provision conforms to the reporting changes made in HEA 1072 (2012). Under current law, the county auditor must notify each taxing unit in the county of the amount of property tax collections lost to the tax caps. However, HEA 1072 (2012) shifted the responsibility to prepare the circuit breaker loss report from the county auditors to the DLGF. Under current law, the DLGF must post this report on its website. Under this bill, county auditors would no longer have these reporting requirements.

Redevelopment Commission Reporting: This bill would require the redevelopment commissions to submit a report to the fiscal body of the taxing unit before August 1 of each year. The report would have to include previous year information for each TIF district including revenues received, expenses paid, fund balances, bond balances and maturity dates, the amount paid on obligations, and a list of all parcels in the allocation area including the base AV and incremental AV of each parcel. Before October 1 of each year, the fiscal body would have to compile the reports for each TIF district and submit a comprehensive report to the DLGF.

The redevelopment commissions and taxing units could incur some additional administrative expense in completing the reports.

Under current law, redevelopment commissions are annually required to file a report within 30 days of year-end on the previous year's activities with the taxing unit executive. The current report contains information on employees, salaries, TIF revenues expended as grants or loans and year-end cash balances. The report must be forwarded to the DLGF. This bill would extend the report filing deadline to March 15.

Explanation of Local Revenues: *Township Fire*: Under current law, a township board may authorize the trustee to borrow money to meet unfunded needs for fire and emergency services. Emergency fire loans are repaid from proceeds of a special debt levy imposed in the following year. This bill would limit emergency borrowing to three years within any five year period. This provision could reduce the amount of emergency fire loans and the property tax levies to repay them in cases where the loans are frequently sought.

The bill would also permit townships to petition the DLGF in 2013 for an increase in the township fire maximum levy if the township had an emergency fire loan in 2012 or 2013. The levy increase would be limited to the amount borrowed in either 2012 or 2013, and would first apply to taxes payable in 2014.

Townships that would qualify for a maximum levy increase under this bill will have borrowed operating funds in 2012 or 2013 and consequently will impose debt service levies in the following year. If a township has a recurring need to borrow operating funds then the maximum levy increase allowed by this bill would not represent an increase in the township's overall property tax levy. For these townships, the increase in the fire fund levy under this bill would take the place of the debt service levy.

In 2013, twenty-nine townships levied $15 M to pay back emergency fire loans from 2012. If the 2013 emergency loan experience is similar to 2012, then townships could ask for up to $15 M in increased fire protection maximum levies.

Additionally, this bill would permit townships that receive increases to their maximum levies to borrow money in 2014, 2015, and 2016 in order to stretch out the repayment of the 2012 or 2013 emergency fire loan. The amount borrowed in each of those years would be limited to the amount needed to repay one-third of the principal and interest of the debt per year. An affected townships would then be permitted to increase its levy in excess of the maximum levy in order to repay those loans.

Cumulative Funds: Under current law, cumulative funds are rate-controlled. Each cumulative fund has a maximum tax rate which is adjusted each year to eliminate the effects of a general reassessment or annual adjustment. This provision makes changes to the adjustment formula to better conform to the enactment of cyclical reassessments in SEA 19 (2012).

Controlled Projects: This provision would change the cost threshold at which all types of school buildings would be subject to the referendum process. Additionally, any part of the project's cost that will be paid from dedicated gifts and donations would not be considered when comparing the estimated cost to the threshold. These provisions would have varying effects by project as the new threshold would be either the same as or less than the current threshold depending on the building type.

Under current law, a capital project is considered a controlled project if it will cost the taxing unit more than the lesser of (1) $2 M or (2) an amount equal to 1% of the unit's total gross AV (if that amount is at least $1 M).

Currently, a controlled project for a school building for kindergarten through Grade 8 is subject to a referendum if the cost is more than $10 M. A controlled project for a school building for Grade 9 through Grade 12 is subject to a referendum if the cost is more than $20 M. Other controlled projects with a cost that exceeds the lesser of (1) $12 M or (2) 1% of AV (if that amount is at least $1 M) are also subject to a referendum. In addition, a taxing unit may specify that the public question process applies even if the project is not a controlled project.

Under the bill, a project for any type of school building would be subject to referendum if the cost would exceed $10 M. This change represents a $10 M decrease in the threshold for grade 9 through 12 buildings, no change in the threshold for kindergarten through grade 8 buildings, and a $2 M decrease in the threshold for all other school buildings.

Assessor Omissions: This provision would spread property tax payments out over multiple years in cases where property taxes are billed for retroactive assessment changes due to structural changes in prior years. The payments would be made over the same number of years as the number of years covered in the billing. This provision would apply only if the property owner complied with all notice and permit requirements for the structural change.

Background: In some counties, when a real property assessment omission by the assessing official is discovered, the assessments for prior years are updated to reflect the changes to the property and the difference in taxes for those years is billed to the owner.

TIF Neutralization: In some cases, this provision could result in higher base AV for taxing units and lower allocated AV for TIFs. The higher base AV would result in lower tax rates and potentially lower circuit breaker losses. Both the lower TIF AV and the lower tax rates would result in lower TIF proceeds. The extent of these changes is currently indeterminable and would depend on changes in AV going forward.

Background: Property taxes charged on new AV in a TIF allocation area are allocated to the local redevelopment commission. Allocated AV is excluded from the tax base (base AV) that is used to calculate property tax rates.

Under current law, the base AV in an allocation area is adjusted to reflect AV changes from general reassessments and annual adjustments. The adjustments may not include the effect of property tax abatements and they may not produce less TIF proceeds than if the general reassessment or annual adjustment had not occurred.

Under the bill, the base value could be reduced only to the extent that AV in the TIF area has been reduced because of a general reassessment or annual adjustment.

State Agencies Affected: Department of Local Government Finance; Commission on State Tax and Financing Policy.

Local Agencies Affected: County auditors; Local assessors; County and municipal fiscal bodies; Townships; Libraries; Local civil taxing units and school corporations; Redevelopment Commissions.

Information Sources: Local Government Database.

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